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Executive Secretary

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

February 4, 1985

~~UNCLASSIFIED~~
~~(With Confidential Attachment)~~

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

Attached are the SIG-IEP Minutes for the January 24, 1985 meeting.

Edward J. Stucky

Edward J. Stucky
Acting Executive Secretary

~~UNCLASSIFIED~~
~~(With Confidential Attachment)~~

DCI EXEC REG

B223B

SENIOR INTERDEPARTMENTAL GROUP ON INTERNATIONAL ECONOMIC POLICY

January 24, 1985
11:00 a.m.
Roosevelt Room

Attendees:

<u>Treasury</u>
Secretary Regan, Chairman
David C. Mulford
Ronald E. Myers

<u>NSC</u>
Roger Robinson, Executive Secretary
David Wigg

<u>OVP</u>
G. Phillip Hughes

<u>State</u>
Secretary Shultz
W. Allen Wallis

<u>Defense</u>
Richard Perle
James A. Kelly

<u>Agriculture</u>
Secretary Block

<u>Commerce</u>
Secretary Baldrige
Lionel H. Olmer

<u>OMB</u>
Joseph Wright
Alton G. Keel

<u>CIA</u>
David Low
[redacted] 25X1

<u>USTR</u>
Ambassador Smith
James Murphy

<u>Energy</u>
Jan W. Mares
George Bradley

<u>CEA</u>
William Niskanen

<u>Transportation</u>
Matt Scocozza

<u>OPD</u>
Jack Svahn
Roger Porter

<u>U.S.-Japan Economic Issue</u>

The Chairman asked Ambassador Smith (USTR) to report on the U.S.-Japan economic issue.

Ambassador Smith noted that the Japan IG had met several times and was making good progress. A message had been sent to the Japanese from Secretary Shultz. Some meetings had taken place already with business groups and some staffers and Members of Congress. The SIG would be informed before more formal contacts are initiated with the Congress. An initial meeting with Japanese counterparts was set for

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next week in Tokyo followed immediately by telecommunications sector discussions. They had decided to concentrate on the four sectors already agreed and would add others later as appropriate. A scope paper for the delegation headed by Allen Wallis would be ready shortly.

Secretary Shultz suggested a somewhat different approach is necessary, concentrating on the Nakasone/Abe commitment to the President to seriously address trade issues. While important that sector groups get going, key to success will be active involvement of Nakasone/Abe. Wallis group should seek agreement on basic objectives and organization for negotiations, making clear to Japanese officials and press Japan's stake in a positive outcome. U.S. payoff must not be seen as barrier removal, but rather increased sales.

Secretary Shultz sees several time markers to measure progress, including the Wallis trip next week, the regular Cabinet Group meeting, and Abe's visit to Washington in April, culminating in the Bonn Summit. Sector teams should meet by March, before Abe visit, with reports channelled through State Department. Wants positive results by Bonn Summit. Believes the SIG-IEP is good place to monitor progress and wants another SIG discussion before the March meetings. Clear need to keep structure of talks focused on Nakasone/Abe/Shultz.

Ambassador Smith indicated that all IG members supported need to focus on high-level Japanese commitment.

Secretary Regan asked about automobile voluntary restraint agreement and need to weave VRA into this negotiating schedule. Secretary Baldrige noted that a joint CCCT/TPC on VRA's is scheduled for next week. Doesn't disagree with focus on Nakasone/Abe. Asked whether four sectors had been agreed to by Japan and urged a speed-up in U.S. preparations. Particularly concerned that discussions with U.S. industry will take time and that specific objectives are needed.

It was agreed Japanese had publicly supported the four sectors. Secretary Regan noted some questions had been raised about combining telecommunications and electronics sectors, but believes they are closely related. Ambassador Smith reported that U.S. industry wants to combine those two sectors. Although it may lead to bureaucratic difficulties for the Japanese, such a combination is logical because of technological overlap. As USG has devised mechanism for combining high-tech sectors, thought it appropriate. Provided more details on discussions with individual industry groups, noting attempt to use existing 16 advisory groups. Agrees process will take time, but believes real progess being achieved.

Secretary Baldrige asked if Wallis meeting focusing on objectives or organization. Ambassador Smith responded there is need to ensure Japanese understand process being proposed, goals being sought, and schedule. Under Secretary Wallis noted Japanese not viewing process as we, and may raise own issues, including unitary tax and cargo airline questions. Secretary Baldrige expressed concern about time wasted discussing open U.S. market. Secretary Shultz thought Japanese questions could be handled rapidly and may need to be discussed so Japanese not in difficult position. However, they are facing same tight time schedule imposed at Nakasone/Reagan meeting. Secretary Regan noted that another state recently announced progress on unitary tax and Assistant Secretary Mulford noted unitary tax had been fully addressed during yen/dollar talks.

In response to Secretary Baldrige's question regarding use of leverage, Secretary Regan noted President had explicitly mentioned to Nakasone growing Congressional pressure for trade action.

Report on U.S.-USSR Working Group of Experts Meeting

Under Secretary Olmer reported on his meetings in Moscow, recounting the history of President's support for the talks. Mr. Olmer identified to Soviets trade areas that could not be discussed, including dual-use technology, or could only be negotiated if Soviets met preconditions regarding human rights and emigration. Clear progress made on remaining trade area in atmosphere of free exchange. Soviets refrained from polemics and made only marginal reference to contract sanctity, reliability of supply, and emigration. Agreement was reached that Soviets prepared to meet at Cabinet level, recognized the mutual benefits of trade, and were prepared to accept bids from U.S. firms. Soviets will also hold trade talks with U.S. private sector group regarding various projects and have authorized reinstatement of U.S. commercial seminars that Soviet officials can attend. All agency members of delegation support conclusion that SIG-IEP recommend to President that a Cabinet-level joint meeting be held in the near future.

Assistant Secretary Perle (Defense) felt that recommendation was reasonable. However, concerned that process could fuel allies' concerns that the U.S. "turning on" at will trade with Soviets, thus undercutting difficult progress achieved to control high-tech exports. Feared tendency of allies to view publicity about recent meetings as opening floodgate to their exports to Soviets. Recommended consultations with allies and high-level public statement to reiterate our policy on high-tech exports.

Secretaries Shultz and Baldrige agreed with Perle's recommendations. Secretary Shultz believes it important to emphasize what has and what has not changed in U.S. policy. Recent talks are a political signal and represent increased U.S.-USSR trade over immediate past, but controls over dual-use technology remain much tighter than five years ago. Secretary Baldrige agreed that amount of trade involved is minor and is essentially a political gesture. There was support for joint Commerce/Defense Department presentation at upcoming COCOM meeting. The SIG agreed to recommend to President a Cabinet level meeting sometime in the spring.

King Fahd Visit: Economic Issue

Given time constraints, Chairman agreed that Common Fund be considered at next meeting. Ambassador Smith reported on interagency process addressing Saudi petrochemical imports issue which might arise during King Fahd's upcoming visit. Saw it as extremely complex and politically difficult issue, possibly a major topic of 1980s. Hopes to have an interagency-cleared paper by February 4. Substance of U.S. position to note that no objections have yet been raised so no real discussion now necessary with the Saudis. However, as major issue with national security, trade, and energy implications could be addressed again by SIG-IEP. The Chairman believed it was important to check President's schedule and have papers prepared 48 hours before his briefing. Doubted King would raise issue with President in any detail. Also expressed concern as to who in U.S. Government would express the very legitimate interest U.S. consumer has in lower petrochemical prices.

Dr. Mulford shared concern about consumer's interests and reported that Saudis had expressed to him recently very strong views on issue, noting their trade deficit with U.S., oil price difficulties, U.S. direct investment in Saudi Arabia, the lack of foreign exchange restrictions, and that U.S. partners participate in Saudi petrochemical industry. He believed that if progress was made on the Middle East peace initiative, Saudi petrochemicals would become a particularly important issue.

SECRET 25X1

The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC 00422-85
25 January 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer at Large and
Acting National Intelligence Officer for Economics

SUBJECT: US-USSR Trade 25X1

1. At the 24 January 1985 meeting of the SIG-IEP chaired by Secretary Regan, UnderSecretary of Commerce Lionel Olmer summarized the written report on the results of the 4th session of the US-USSR Working Group of Experts held in Moscow on January 8-9, 1985 (report attached). 25X1

2. As a result of the meeting in Moscow, the US delegation has concluded that the conditions necessary to assure a successful US-USSR Joint Commercial Commission Meeting have been met and recommended to the SIG-IEP that the US indicate to the Soviet Union a willingness to hold such a session as soon as practical. 25X1

3. The SIG-IEP approved the recommendation, authorizing the Commerce Department to proceed with a view toward having a JCC Meeting during the period of April-June 1985. This was approved by Secretary Shultz, Secretary Baldridge and Assistant Secretary Perle, all of whom were present at the meeting. The latter cautioned that the US must be careful to distinquish such discussions on non-strategic trade expansion from the issue of strategic trade. He stated that he was concerned that the US not send confusing signals to allies and promote any perception which might undercut the image of a very strong US resolve to enforce restrictions on strategic items of trade. Secretaries Shultz, Regan, and Baldridge all concurred, with Secretary Shultz noting that the message will have to be outlined in public repeatedly. Secretary Shultz also requested that the timing of JCC consultations be coordinated with him. 25X1

David B. Low

Attachment:
As Stated

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SUBJECT: Memorandum for the Record on US-USSR Trade

NIO/AL/DL:r[redacted] 25 January 1985 NIC 00422-85 25X1

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REPORT TO THE SIG-IEP

On the Results of the
Fourth Session of the U.S.-U.S.S.R. Working Group of Experts
Moscow, January 8-9, 1985

BACKGROUND

(U) On June 27, 1984, the President announced that as part of the effort to engage the Soviets in a more constructive dialogue, the Administration had proposed that preparations begin for a meeting of the Cabinet-level U.S.-U.S.S.R. Joint Commercial Commission (JCC). The Soviets were told by Secretary Baldrige that we would agree to such a meeting if sufficient common ground existed for trade expansion and if concrete steps would result to facilitate an increase in peaceful trade. The Soviets agreed to a meeting of the Working Group of Experts to explore these questions.

(S) On December 18, 1984, the SIG-IEP discussed the objectives for the Working Group Meeting, and on January 4, 1985, in NSDD 155 the President enumerated the U.S. objectives as being:

- To review the status of overall U.S.-Soviet economic and commercial relations.
- To discuss present obstacles to our trade relations in an effort to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies.
- To help determine if there are sufficient grounds for a meeting of the U.S.-U.S.S.R. Joint Commercial Commission.

(S) The President also approved positions to be taken on issues the Soviets were expected to raise, approved using the meetings to express serious human rights concerns, and stated that pending further policy clarification we should not agree to an active program of trade expansion in oil and gas equipment.

SUMMARY OF RESULTS

(C) The Working Group, chaired on the U.S. side by Commerce Under Secretary Olmer and on the Soviet side by Deputy Foreign Trade Minister Sushkov, agreed that the prospects for trade expansion within present U.S. and Soviet policies were relatively modest, but of sufficient interest to act upon. Both sides agreed the trade relationship could not be viewed apart from the overall bilateral relationship.

(C) The Soviets indicated strong interest in an expansion of trade with the United States, however limited that might have to be. The Soviet interest is particularly striking in that the Soviets remained positive and non-polemical despite the blunt U.S. statements on the need for human rights improvements as necessary for any major gains in the relationship.

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Classified by: Lionel H. Olmer
Declassify on: O.A.D.R.

(C) The Working Group identified areas where both sides were interested in expanding trade. All of these areas are in full conformity with present U.S. export control policies and other laws and policies governing bilateral trade. The Working Group also identified concrete steps which would facilitate growth in peaceful trade, and which could be announced at a JCC meeting.

(C) Both sides expressed satisfaction with the tone and substance of the meetings. Both acknowledged that the final decisions on holding a meeting of the JCC would be made in the respective capitals after reviewing the results of the Working Group meeting and considering other relevant factors. Both also agreed to recommend that if a JCC meeting were held its agenda should be: (1) Status and prospects of bilateral trade; (2) Results of the Working Group of Experts; (3) Opportunities for expansion of trade, including projects; (4) Business facilitation.

(C) The U.S. delegation believes that the conditions necessary to assure a successful JCC meeting have been met, and recommends to the SIG-IEP that the United States indicate to the Soviet Union a willingness to hold such a meeting as soon as practical.

U.S. VIEWS

(C) The U.S. delegation made it plain at the outset of the meetings that our security and foreign policy interests remain paramount and will continue to set limits to acceptable trade. The delegation said the U.S. wanted to find areas where trade could be expanded within the present framework of export control policies and other laws and policies governing the bilateral relationship. We were not interested in changing the framework.

(C) The U.S. delegation described three areas: (1) those with major constraints that had little or no prospect of being overcome; (2) those with constraints that could be resolved or reduced considerably; and (3) areas where there were no constraints. The U.S. view was to recognize the obstacles, but to take a pragmatic approach of trying to find mutually agreeable steps in the latter two areas.

(U) The U.S. delegation stressed that the trade relationship could not change significantly independently of other aspects of the U.S.-Soviet relationship. In particular, major improvements in the trading relationship would not be possible in the absence of major progress on human rights. Jackson-Vanik would not be changed.

(U) We noted the Soviet view that the U.S. had created the barriers to trade and had to bear unilateral responsibility to improve the relationship. The U.S. admonished the Soviets that this view was unrealistic, and that action to move trade forward would have to come from both sides. The U.S. delegation pointed to Soviet actions which have removed U.S. companies from bid lists, have prevented U.S. companies from staging seminars and trade promotions, and have branded U.S. companies as unreliable suppliers.

(U) It was the view of the U.S. delegation that attractive possibilities for a significant increase in trade existed within present constraints, without any change in framework. The Soviets were urged to act on some long-standing contract negotiations and to take a pragmatic approach to identifying additional project possibilities.

THE SOVIET VIEW

(C) The Soviet delegation believed that a very large increase in trade could take place if the U.S. would grant MFN and credits, limit its export controls, and guarantee contract sanctity. Otherwise, only relatively modest gains would be possible. The Soviets expressed disappointment with the firm U.S. position on Jackson-Vanik and human rights, saying these concerns should be separate from trade. (In private conversations, some Soviet leaders showed more flexibility. Gosbank Chairman Alkhimov, in particular, said that if good relations were restored with the United States, 50,000 Jewish emigrees annually would be "no problem.")

(C) The Soviets accepted the U.S. view that the focus should be on areas where there were few or no problems, and also agreed that both sides would have to take trade facilitating steps if a JCC meeting were to be held. The Soviets said they accepted the right of the U.S. to control its exports, but it was critical for any expansion in the relationship to let them know more precisely what we were willing to sell them. They suggested that this be discussed on a project-by-project basis.

AREAS FOR POTENTIAL PROJECTS

(C) The Working Group agreed that the basis for discussing potential projects should be the list of 15 sectoral areas suggested by the U.S.-U.S.S.R. Trade and Economic Council (USTEC). The fifteen areas are: food processing, fishing, service industries, energy, pulp and paper, pollution control, textiles, land reclamation, materials handling, biotechnology, transportation, petrochemicals, chemicals, consumer goods, and medical equipment.

(C) In addressing the energy sector area on the USTEC list, the U.S. delegation reiterated existing policy on export of oil and gas equipment and technology to the Soviet Union. Oil and gas exploration and production equipment, along with a few items of transmission equipment, require a validated export license and most of this equipment has a presumption of approval. Virtually no refining equipment requires a validated license. Oil and gas technology for exploration and production requires a validated license, and there is a presumption of denial. The Soviets asserted that their energy development plans would proceed with or without the United States. Sushkov stated that if the U.S. Government does not endorse the proposed USTEC energy, pollution control, and recycling exhibit, he will recommend that plans be dropped for the exhibit at the March meeting of the USTEC executive committee.

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(C) On the other 14 areas, the U.S. delegation indicated that in most of them there would be few licensing problems, and projects in many areas could be endorsed. The Working Group agreed that each side should narrow the list according to its interests, and that discussion of specific project possibilities should be undertaken where there was overlapping interest.

SPECIFIC STEPS

(C) Each side indicated a number of specific actions it wanted the other to take in the context of a JCC meeting, either seeking to resolve the issue prior to the JCC or to discuss it at the JCC.

U.S. List --

1. A joint statement of support for mutually beneficial trade. The Soviets agreed, but want the U.S. to make the first draft.

2. Put all interested U.S. companies back on bid invitation lists. The Soviets at first denied they had any policy against U.S. companies, then admitted that de facto there was such a practice and agreed to take visible steps to end the practice. (This is the major barrier to non-strategic trade expansion, in the view of U.S. companies.)

3. Provide Trade Ministry guidance to all Soviet Foreign Trade Organizations to treat U.S. companies equally with other Western suppliers. The Soviets agreed to do this in a visible manner.

4. Sign some contracts that have been under negotiation with American companies for a long time. The Soviets agreed in principle, but refused to specify which contracts. Now me

5. Develop specific new project proposals in mutually-agreeable areas. The Soviets agreed.

6. Allow resumption of seminars and other promotions at the U.S. Commercial Office in Moscow. The Soviets agreed, and also offered to pay half the cost of setting up an entity to promote added business by small U.S. companies.

Soviet List --

1. Terminate furskins embargo. The U.S. delegation expressed willingness to discuss options with Congress if the Soviets act to improve U.S. business prospects in the U.S.S.R.

2. Restore Aeroflot landing rights. U.S. stressed the need to reach an understanding on North Pacific air safety measures so that discussions on other aspects of our civil aviation relationship might be resumed between our experts. U.S. also noted that eventual agreement would have to contain full balance of economic concessions for U.S. carriers.

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3. Conclude new tax protocol. U.S. indicated readiness to move forward on unsigned 1981 protocol, but noted changes may have to be made.

4. Eliminate nickel prohibition. U.S. noted recent Treasury offer as good basis for resolution, and invited Soviets to respond.

5. Antidumping, especially action on potash. U.S. agreed to discuss, but noted limited administrative flexibility.

6. Supplier Reliability. U.S. agreed to discuss the matter if a JCC were held.

7. MFN and Credits. U.S. agreed to put it on agenda, stressing that there would be no change in U.S. policy. Soviets noted firm U.S. position, but want it on JCC agenda anyway.

8. Renew maritime negotiations. U.S. agreed to discuss maritime matters, but in the traditional maritime framework and noting that U.S. maritime industry interests would have to be addressed.

(U) This report has been reviewed and cleared by all members of the U.S. delegation, which included representatives of the Departments of State, Treasury and Commerce, the U.S. Trade Representative and our Embassy in Moscow.

JAN 18 1985

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Executive Secretary

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23 January 1985

Date

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

January 23, 1985

UNCLASSIFIED
(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

Attached for tomorrow's SIG-IEP meeting is a status report on the Japan IG, a USTR paper on an issue likely to arise during King Fahd's visit to the United States, and a paper on world oil markets and prices prepared by the Department of Energy.

CH

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

UNCLASSIFIED
(With Confidential Attachment)

R-238

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506
202-395-5114

January 22, 1985

MEMORANDUM

TO: Secretary Donald T. Regan
Chairman, SIG-IEP

FROM: Ambassador Michael B. Smith
Chairman, Japan IG

SUBJECT: Japan IG - Status Report

To undertake the mandate given by the SIG-IEP at its January 4 meeting, I convened the newly established Japan IG twice during the week of January 7, once on the 17th, and we will meet again tomorrow. At tomorrow's IG meeting, draft scope and objective papers will be examined. All SIG-IEP member agencies interested in trade are participating. Following is a status report and responses to questions you raised at the SIG-IEP.

Message to the GOJ

In order to build on the momentum of the President's meeting with the Prime Minister, the SIG-IEP agreed that we should promptly dispatch a message to the GOJ. The IG met its deadline of agreeing on the message by January 11. Secretary Shultz signed the letter to Minister Abe January 16 and cabled it to our Tokyo Embassy for immediate delivery.

The letter (Tab 1) proposes that Under Secretary Wallis lead a group including Under Secretary Olmer, Deputy Under Secretary Amstutz, and myself to meet with our counterparts in Tokyo January 29-30. At present, Under Secretary Sprinkel is regretably unavailable on these dates. These are the only dates between now and mid-February when most of the Under Secretaries are available. The purpose of this Tokyo meeting is to discuss the formation of the sector teams and agree on how the teams will proceed. This meeting may be moved to January 28-29 at the request of the GOJ.

Secretary Shultz's letter also proposes that, given the urgency of telecommunications issues, the Telecommunications Sector Group have its first bilateral meeting the week of January 28. We expect other sectors to have their initial meetings in February.

Composition of the Sector Teams

Commerce and USTR will co-chair the telecommunications/electronics sectors, USDA will take on forest products, and the medical equipment/pharmaceuticals will be led by Treasury or, if Treasury is unable to, USTR will lead. Preparations on forestry products are advanced; others will require more preparations.

Additional Sectors

We have considered the question of whether sectors in addition to the original four should be included in this first round. In particular, we looked at your suggestion of chemicals and Secretary Baldrige's suggestion of manufactured tobacco products. While it is agreed that these and other sectors should be included, it is our recommendation that, in view of the resources available, we should confine our current efforts to the original four sectors. We would take on other sectors as the original sectors are taken care of.

Coordination of the Sector Teams

It is of course essential that the sector teams operate in a manner and pursue objectives consistent with our overall trade policy. It is also essential that on issues which cut across more than one sector, such as standards, that the objectives of the various teams are consistent. To assure this we will use the existing interagency trade policy coordinating groups structured under the Trade Policy Committee. All position papers and negotiating instructions for the sector teams will be cleared through the TPC process.

Contacts with Business Community

We have two objectives here. First we need to get the word out on the new approach. Industries included in the four selected sectors want to know what will happen. Industries not included are worried that their interests are being abandoned. We need to meet with industry groups and trade associations to explain the new approch. Ambassador Brock began this process in his January 9 meeting with the Advisory Committee for Trade Negotiations (ACTN). He will have another opportunity when he addresses the February 4 meeting of the Advisory Council on Japan-U.S. Economic Relations. The Emergency Committee on American Trade assembled a group of interested firms for me to brief on January 17. We will offer similar briefings to other groups as well.

Our second objective is to assemble private sector advisors for each of the sector teams to identify problems and agree on objectives. Moreover, we will ask for continuing support from these industries, including technical advisors where needed. As soon as the sector teams are formed they will begin meeting with interested trade associations and firms. Some associations such as The American Paper Institute have already begun to prepare for these consultations.

Contacts with the Congress

We also need to brief the Congress on our new approach. On January 10, I briefed the staffs of the Trade Subcommittees of the Senate Finance Committee and the House Ways and Means Committee. As the Congress returns to town we will also be briefing interested Members. It was agreed that USTR will coordinate these Congressional contacts.

Possible Ministerial Meeting

At the SIG-IEP meeting you asked about the new M-7 group formed by Prime Minister Nakasone, and raised the question of a possible bilateral ministerial meeting. The GOJ paper at Tab 2 presents the members and objectives of the M-7 group, known formally as the Ministerial Conference for External Economic Affairs.

The IG has discussed the possible utility of a ministerial meeting. It is not clear that the benefits would outweigh the costs. However, we are continuing to look at the idea, including possible opportunities for such a meeting.

Attachments

THE SECRETARY OF STATE

WASHINGTON

[redacted]

January 16, 1985

Dear Mr. Minister:

As soon as I returned from our Los Angeles meeting, I immediately began final preparations for my meeting with Soviet Foreign Minister Gromyko, and I therefore have not had an opportunity until now to write and express my satisfaction with our January 2 meetings, and the special role that you and officials of your Foreign Ministry played in them. As the President indicated in his remarks to the press afterwards, Prime Minister Nakasone's visit has reconfirmed and strengthened the vital relationship that exists between our two countries.

The President and Prime Minister had an excellent exchange of views on the key issues. It was appropriate that our economic relations, particularly our trading relations, were at the top of the agenda. The agreement to work strenuously in the months ahead to open our markets sets the stage for resolving many of our major problems in trade.

You and I have been charged by the President and Prime Minister with overseeing this intensified cooperative effort to make progress in our economic relations. I take this charge most seriously. As President Reagan said, failure to overcome these obstacles in trade will complicate our ability to fulfill the vision of international partnership between Japan and the United States that we both share. We must not allow this to happen. We can and must remove these obstacles. Our two leaders have made the political commitment. We must now produce results.

We are organizing our government to focus at least initially on the four sectors agreed by the President and Prime Minister: telecommunications, electronics, forest products, and medical equipment and pharmaceuticals. We are now studying whether other sectors should be included in this first group.

His Excellency
Shintaro Abe,
Minister of Foreign Affairs,
Tokyo.

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It is our intention to have teams to negotiate on each of the sectors. The U.S. side will be led by Under Secretary-level officials in all meetings with your government. I understand that it is your intention that the Japanese delegations be chaired by Vice Ministers.

To launch this process I propose that Under Secretary Allen Wallis lead a U.S. delegation of Under Secretary-level officials to Tokyo January 29-30 to meet with their Japanese Government counterparts. In that meeting we propose discussion of the formation of the sector teams and how the negotiations would be conducted, and determination of the initial schedule of meetings, including the possibility of a ministerial-level meeting for an initial formal review of the progress of the negotiations. I would hope that this mission could meet with those political figures and business leaders in Japan whom Prime Minister Nakasone has involved in the follow-up process. In addition we would expect that officials of our two governments could jointly have an opportunity to meet with the press to clarify our mutual understanding.

U.S.-Japan Economic Sub-Cabinet Consultations are scheduled for early in March. At that time the Under Secretaries may wish to meet separately to review progress being made by the negotiating teams.

One sector, telecommunications, is particularly ready for negotiation. In view of your recently enacted laws which are to be implemented in April, and the special interest evinced by the Prime Minister in this sector, we believe it is essential to get the negotiations on telecommmunications underway January 30 and 31. I hasten to add, however, that we would wish to begin negotiations on the other three sectors very shortly thereafter. We also look forward to the meetings of our energy experts in early February to accelerate the implementation of our joint energy agreement.

President Reagan and Prime Minister Nakasone will next meet at the time of the Economic Summit in May. I believe that you and I should report to them prior to that meeting on what progress has been made.

I look forward to our continuing cooperation.

Sincerely yours,

George P. Shultz

Press Release — **For Immediate Release**
December 6, 1984

On the Establishment of the "Ministrial Conference for External Economic Affairs"

December 4, 1984
Ministerial Conference for Economic Measures

The Ministerial Conference for External Economic Affairs as described below has been established in order to facilitate the smooth handling of external economic problems. In addition, a meeting of the Advisory Committee for External Economic Affairs has been called. The conference will select a number of foreign experts to participate in the hearings. This is the first time that the Government has permitted foreign experts to present their opinions in this type of government policy-making forum.

1. The Establishment of the Ministerial Conference for External Economic Affairs:

(1) Objectives:

The Ministerial Conference for External Economic Affairs (hereinafter called "Conference") is hereby established within the Ministerial Conference for Economic Measures in order to facilitate the handling of external economic problems.

(2) Members:

The members of the Conference will include the following members of the Ministerial Conference for Economic Measures: the Minister for Foreign Affairs, Minister of Finance, Minister of Agriculture, Forestry and Fisheries, Minister of International Trade and Industry, Director-General of the Economic Planning Agency, Chief Cabinet Secretary, and Minister of State Toshio Komoto. In addition, participation will be solicited from the the Chairman of the Liberal Democratic Party Political and Research Council and the Chairman of the Special Research Committee for International Economic Measures.

The Conference will meet as necessary, and will be empowered to request participation by concerned Cabinet Ministers.

(3) Presiding Chairman:

The Presiding Chairman of the Conference will be Minister of State, Toshio Komoto.

(4) Scope of Activities:

The Conference at the request of the Ministerial Conference for External Economic Measures, will investigate and deliberate on the following matters.

a. The implementation of decisions made by the Ministerial Conference for Economic Measures regarding external economic measures.

b. Mid-term questions involving the further internationalization of Japan's economy.

c. Specific actions which should be taken for the moment with regard to external economic questions.

(5) Reporting:

Results of the inquiries and deliberations of the Conference will be reported to the Ministerial Conference for Economic Measures.

(6) Board of Directors' Meeting:

a. A board of directors meeting is established in order to effectively manage the Conference. It will be constituted by the Bureau Chiefs in charge from the Ministry for Foreign Affairs, Ministry of Finance, Ministry of Agriculture, Forestry and Fisheries, Ministry of International Trade and Industry, and the Economic Planning Agency, and in addition, the Director of the Chief Cabinet Secretary's Office and the Director of the Chief Cabinet Secretary's Special Affairs Office.

b. Members of the board of directors can be added temporarily as needed.

c. Director of the Coordinating Bureau of the Economic Planning Agency will serve as the presiding officer over the Board of Directors.

(7) General Affairs:

The general affairs of the Conference, will be handled by the Special Affairs Office of the Chief Cabinet Secretary with the cooperation of the Coordination Bureau of the Economic Planning Agency.

2. The Calling of the Advisory Committee for External Economic Affairs:

(1) Objectives:

The Advisory Committee for External Economic (hereinafter referred to as "Committee") meeting will be called at the request of the Conference to deliberate and express their opinions.

(2) Members:

There will be participation from up to 10 members with deep knowledge and experience in international economics, international financing, international trade, and other external economic questions.

(3) Sitting Chairman:

The Committee will select a sitting chairman from among their ranks.

(4) Collecting Opinions:

a. Special Participants:

The Committee will select a number of foreign experts as special participants and will hear their opinions from time to time.

b. Other:

When necessary, the subcommittee will conduct hearings which elicit the opinions of employees of related government agencies and ministries, or academics or persons having relevant experience and knowledge from both Japan and abroad.

(5) General Affairs:

The general affairs of the Committee will be handled by the Special Affairs Office of the Chief Cabinet Secretary with the cooperation of the Coordination Bureau of the Economic Planning Agency.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

January 22, 1985

U.S. - Saudi Trade Issues

A number of trade issues may be raised during the course of the King's visit. Key among the issues are the Saudis' interest in continued access to the U.S. market for its petrochemicals exports; efforts in Congress to address petrochemicals pricing through legislation which will affect its exports; possible preferential access to the U.S. market for petrochemicals under the GSP and; the viability of a product-specific bilateral agreement or Free Trade Arrangement. Work is underway within the interagency Trade Policy Committee framework on agreed positions for these issues. A discussion on options for dealing with these issues will be included in the interagency paper for the King's visit.

World Oil Prices

ISSUE

Given OPEC's claims that the industrialized countries have conspired to force OPEC to lower official oil prices, how should the USG approach a discussion of the oil market with King Fahd/ Sheikh Yamani.

BACKGROUND

Despite the recent OPEC Ministerials (October and December), current oil prices remain weak. While world oil demand has increased slightly in 1984 compared to 1983, it still remains over 6 million barrels per day (MMB/D) below the peak in 1979. In response to higher oil prices, consumers accelerated substitution away from oil. Moreover, non-OPEC production has risen over 3 MMB/D in the same period. As a result, OPEC oil production (crude and NGLs) has plummetted from almost 32 MMB/D in 1979 to about 17 MMB/D at present. The current excess world oil production capacity of 10 MMB/D, pressing financial needs of several oil producers (leading them to produce more than their OPEC-assigned quotas), and weak oil demand continue to exert downward pressure on oil prices. OPEC has attempted to support the official $29 benchmark price structure by reducing the group's crude production quota (from 17.5 MMB/D to 16 MMB/D), and announcing its intention to "audit" members' pricing and production actions. Thus far, however, the market remains unconvinced of OPEC's abilities to stabilize prices; spot crude and product prices have not risen significantly despite the seasonal upturn in oil demand. Moreover, the press has speculated that Norway, Canada, and Britain will shortly reduce official contract prices to reflect current spot market levels, about $1.00/barrel below Official Selling Prices (OSP) at present.

DISCUSSION

OPEC Oil Ministers, in particular, Sheikh Yamani, have applied public and private pressure on other market participants in order to gain their assistance in halting a further erosion in oil prices. Mexico and Egypt made nominal cuts in production levels and maintained prices. Malaysia and Brunei, recent observers at the Geneva OPEC meeting, announced their intention to scale back their 1985 oil production targets.

Some OPEC members, including Yamani, have interpreted the Norwegian, British, Canadian price cuts, Secretary Hodel's London speech, the reduction in U.S. domestic oil postings by several companies and what they perceive to be a massive draw-down of private petroleum inventories (they allege 3-4 MMB/D), as evidence of a conspiracy to force OPEC to reduce official prices.

Yamani and Indonesian Oil Minister Subroto have threatened "high cost" oil producers, Norway and Britain, with a price war through the temporary suspension of OPEC production and pricing controls. The aim is to deter further price cuts by Norway and Britain in January.

While OPEC may attempt to blame others for the weakness in oil prices, it is clear that the current oil market reflects the following fundamentals:

- Oil demand remains weak. Despite a slight upturn in U.S. oil consumption in the first half of 1984, the rate of growth has slowed considerably. Oil consumption in Europe and Japan has followed a similar trend, where demand remains weak partly as a result of high and rising local currency prices for oil products.

- Oil companies are not rebuilding oil inventories at present. Given the large stock build in the second quarter of 1984 in response to the escalation of hostilities between Iran and Iraq, weak oil demand, the relative abundance of oil supplies, in particular, of short-haul crudes, financial imperatives and the expectation of lower oil prices in the future, companies are reducing inventories and operating their marketing systems with lowers levels of working stocks.

- Oil supplies remain adequate. In response to the previous oil price shocks, non-OPEC production has increased. While the growth rate of this non-OPEC production is expected to slow down eventually, the demand for OPEC oil is expect to remain weak. Looking out over the next few years, the potential for oil supply increases from all sources is much larger than any forseeable rise in demand.

Most observers doubt that the OPEC production "auditing" system will lead to improved member discipline. If it does not, the perception in the market will continue to be that prices will decline further. Many market observers believe that the fundamental forces at work in the current oil market will bring about an eventual further reduction in some OPEC members' official selling prices. The only uncertainties, in their view, are the timing and magnitude of the price reduction. With OPEC Ministers scheduled to meet again on January 27, 1985, there is a possibility that OPEC could agree on a new, lower price structure prior to King Fahd's scheduled visit to Washington.

U.S. POSITION

As noted in Secretary Hodel's statement of October 31, 1984, and other pronouncements, the USG believes that stability in the energy markets can only be achieved if the market is allowed to establish a supply and demand equilibrium over time. In our view, the market has sent a clear signal that the current world oil price is too high in relation to demand.

Given Yamani's public statements, we should indicate in any discussions of the oil market that:

- We have not attempted to "talk down" the price of oil. Analytical comments on market trends are not equivalent to advocating a particular price for oil, which we believe is best determined in the marketplace.

- Reductions in U.S. postings by American oil companies and price cuts by Canada, Britain and Norway were all independent decisions reflecting the underlying fundamentals of the oil market.

- We have no evidence of an unusual stock drawdown. Our data indicate that the industrialized countries have reduced their commercial inventories by modest rates.

- In fact, the U.S. and Japan continued to build their strategic stocks. It is our intention to continue filling the SPR through September 30, 1985 to maintain a fill rate for the fiscal year of 159,000 B/D.

U.S. POSITION ON PRODUCER-CONSUMER DIALOGUE (IF RAISED)

Although we have no evidence that the Saudis desire such talks at this time, the Saudis may broach the issue of producer-consumer dialogue for the purpose of stabilizing oil prices. We oppose formal or informal multilateral talks between oil producing and oil consuming countries. The most likely course for such talks would have us discuss oil prices and output, and we believe these should remain the outcome of a market process. The consequences of engaging in such talks would be to run up against irreconcilable differences and to exacerbate tensions between producers and consumers. The stated purpose of such talks--to exchange information on oil markets--seems to us to be redundant in view of our bilateral talks with producers and the information produced by the marketplace itself.

- We oppose informal or formal multilateral meetings with oil-producing countries and believe that any such discussions would inevitably lapse into a debate over pricing and production levels, both of which we consider best determined by the marketplace.

- We believe bilateral contact is the best way of exchanging views and information with oil-producing countries and more use should be made of such contacts.

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI	X			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20	NIO/NESA		X		
21	NIO/USSR		X		
22	D/SOVA		X		

SUSPENSE ______________
Date

Remarks

Please note: Two additional papers on the agenda will be forwarded soon.

25X1

Executive Secretary

23 January 1985
Date

3637 (10-81)

THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

January 22, 1985

Executive Registry

85- 350

UNCLASSIFIED
(With Secret Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Thursday, January 24, at 11:00 a.m. in the Roosevelt Room.

The agenda items are:

1) U.S.-Japan Economic Issues;

2) Report on U.S.-USSR Working Group of Experts Meeting;

3) U.S. Position on Common Fund;

4) King Fahd Visit: Economic Issues.

A Commerce Department report on the U.S.-USSR Working Group of Experts Meeting and a Treasury Department discussion paper on the Common Fund are attached. Papers on the other two agenda items are being prepared by USTR and will be forwarded as soon as they are available.

Attendance will be principal plus one.

DTR

Donald T. Regan

UNCLASSIFIED
(With Secret Attachment)

B-223B

REPORT TO THE SIG-IEP

On the Results of the
Fourth Session of the U.S.-U.S.S.R. Working Group of Experts
Moscow, January 8-9, 1985

BACKGROUND

(U) On June 27, 1984, the President announced that as part of the effort to engage the Soviets in a more constructive dialogue, the Administration had proposed that preparations begin for a meeting of the Cabinet-level U.S.-U.S.S.R. Joint Commercial Commission (JCC). The Soviets were told by Secretary Baldrige that we would agree to such a meeting if sufficient common ground existed for trade expansion and if concrete steps would result to facilitate an increase in peaceful trade. The Soviets agreed to a meeting of the Working Group of Experts to explore these questions.

(S) On December 18, 1984, the SIG-IEP discussed the objectives for the Working Group Meeting, and on January 4, 1985, in NSDD 155 the President enumerated the U.S. objectives as being:

- To review the status of overall U.S.-Soviet economic and commercial relations.
- To discuss present obstacles to our trade relations in an effort to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies.
- To help determine if there are sufficient grounds for a meeting of the U.S.-U.S.S.R. Joint Commercial Commission.

(S) The President also approved positions to be taken on issues the Soviets were expected to raise, approved using the meetings to express serious human rights concerns, and stated that pending further policy clarification we should not agree to an active program of trade expansion in oil and gas equipment.

SUMMARY OF RESULTS

(C) The Working Group, chaired on the U.S. side by Commerce Under Secretary Olmer and on the Soviet side by Deputy Foreign Trade Minister Sushkov, agreed that the prospects for trade expansion within present U.S. and Soviet policies were relatively modest, but of sufficient interest to act upon. Both sides agreed the trade relationship could not be viewed apart from the overall bilateral relationship.

(C) The Soviets indicated strong interest in an expansion of trade with the United States, however limited that might have to be. The Soviet interest is particularly striking in that the Soviets remained positive and non-polemical despite the blunt U.S. statements on the need for human rights improvements as necessary for any major gains in the relationship.

Classified by: Lionel H. Olmer
Declassify on: O.A.D.R.

(C) The Working Group identified areas where both sides were interested in expanding trade. All of these areas are in full conformity with present U.S. export control policies and other laws and policies governing bilateral trade. The Working Group also identified concrete steps which would facilitate growth in peaceful trade, and which could be announced at a JCC meeting.

(C) Both sides expressed satisfaction with the tone and substance of the meetings. Both acknowledged that the final decisions on holding a meeting of the JCC would be made in the respective capitals after reviewing the results of the Working Group meeting and considering other relevant factors. Both also agreed to recommend that if a JCC meeting were held its agenda should be: (1) Status and prospects of bilateral trade; (2) Results of the Working Group of Experts; (3) Opportunities for expansion of trade, including projects; (4) Business facilitation.

(C) The U.S. delegation believes that the conditions necessary to assure a successful JCC meeting have been met, and recommends to the SIG-IEP that the United States indicate to the Soviet Union a willingness to hold such a meeting as soon as practical.

U.S. VIEWS

(C) The U.S. delegation made it plain at the outset of the meetings that our security and foreign policy interests remain paramount and will continue to set limits to acceptable trade. The delegation said the U.S. wanted to find areas where trade could be expanded within the present framework of export control policies and other laws and policies governing the bilateral relationship. We were not interested in changing the framework.

(C) The U.S. delegation described three areas: (1) those with major constraints that had little or no prospect of being overcome; (2) those with constraints that could be resolved or reduced considerably; and (3) areas where there were no constraints. The U.S. view was to recognize the obstacles, but to take a pragmatic approach of trying to find mutually agreeable steps in the latter two areas.

(U) The U.S. delegation stressed that the trade relationship could not change significantly independently of other aspects of the U.S.-Soviet relationship. In particular, major improvements in the trading relationship would not be possible in the absence of major progress on human rights. Jackson-Vanik would not be changed.

(U) We noted the Soviet view that the U.S. had created the barriers to trade and had to bear unilateral responsibility to improve the relationship. The U.S. admonished the Soviets that this view was unrealistic, and that action to move trade forward would have to come from both sides. The U.S. delegation pointed to Soviet actions which have removed U.S. companies from bid lists, have prevented U.S. companies from staging seminars and trade promotions, and have branded U.S. companies as unreliable suppliers.

(U) It was the view of the U.S. delegation that attractive possibilities for a significant increase in trade existed within present constraints, without any change in framework. The Soviets were urged to act on some long-standing contract negotiations and to take a pragmatic approach to identifying additional project possibilities.

THE SOVIET VIEW

(C) The Soviet delegation believed that a very large increase in trade could take place if the U.S. would grant MFN and credits, limit its export controls, and guarantee contract sanctity. Otherwise, only relatively modest gains would be possible. The Soviets expressed disappointment with the firm U.S. position on Jackson-Vanik and human rights, saying these concerns should be separate from trade. (In private conversations, some Soviet leaders showed more flexibility. Gosbank Chairman Alkhimov, in particular, said that if good relations were restored with the United States, 50,000 Jewish emigrees annually would be "no problem.")

(C) The Soviets accepted the U.S. view that the focus should be on areas where there were few or no problems, and also agreed that both sides would have to take trade facilitating steps if a JCC meeting were to be held. The Soviets said they accepted the right of the U.S. to control its exports, but it was critical for any expansion in the relationship to let them know more precisely what we were willing to sell them. They suggested that this be discussed on a project-by-project basis.

AREAS FOR POTENTIAL PROJECTS

(C) The Working Group agreed that the basis for discussing potential projects should be the list of 15 sectoral areas suggested by the U.S.-U.S.S.R. Trade and Economic Council (USTEC). The fifteen areas are: food processing, fishing, service industries, energy, pulp and paper, pollution control, textiles, land reclamation, materials handling, biotechnology, transportation, petrochemicals, chemicals, consumer goods, and medical equipment.

(C) In addressing the energy sector area on the USTEC list, the U.S. delegation reiterated existing policy on export of oil and gas equipment and technology to the Soviet Union. Oil and gas exploration and production equipment, along with a few items of transmission equipment, require a validated export license and most of this equipment has a presumption of approval. Virtually no refining equipment requires a validated license. Oil and gas technology for exploration and production requires a validated license, and there is a presumption of denial. The Soviets asserted that their energy development plans would proceed with or without the United States. Sushkov stated that if the U.S. Government does not endorse the proposed USTEC energy, pollution control, and recycling exhibit, he will recommend that plans be dropped for the exhibit at the March meeting of the USTEC executive committee.

(C) On the other 14 areas, the U.S. delegation indicated that in most of them there would be few licensing problems, and projects in many areas could be endorsed. The Working Group agreed that each side should narrow the list according to its interests, and that discussion of specific project possibilities should be undertaken where there was overlapping interest.

SPECIFIC STEPS

(C) Each side indicated a number of specific actions it wanted the other to take in the context of a JCC meeting, either seeking to resolve the issue prior to the JCC or to discuss it at the JCC.

U.S. List --

1. A joint statement of support for mutually beneficial trade. The Soviets agreed, but want the U.S. to make the first draft.

2. Put all interested U.S. companies back on bid invitation lists. The Soviets at first denied they had any policy against U.S. companies, then admitted that de facto there was such a practice and agreed to take visible steps to end the practice. (This is the major barrier to non-strategic trade expansion, in the view of U.S. companies.)

3. Provide Trade Ministry guidance to all Soviet Foreign Trade Organizations to treat U.S. companies equally with other Western suppliers. The Soviets agreed to do this in a visible manner.

4. Sign some contracts that have been under negotiation with American companies for a long time. The Soviets agreed in principle, but refused to specify which contracts.

5. Develop specific new project proposals in mutually-agreeable areas. The Soviets agreed.

6. Allow resumption of seminars and other promotions at the U.S. Commercial Office in Moscow. The Soviets agreed, and also offered to pay half the cost of setting up an entity to promote added business by small U.S. companies.

Soviet List --

1. Terminate furskins embargo. The U.S. delegation expressed willingness to discuss options with Congress if the Soviets act to improve U.S. business prospects in the U.S.S.R.

2. Restore Aeroflot landing rights. U.S. stressed the need to reach an understanding on North Pacific air safety measures so that discussions on other aspects of our civil aviation relationship might be resumed between our experts. U.S. also noted that eventual agreement would have to contain full balance of economic concessions for U.S. carriers.

3. Conclude new tax protocol. U.S. indicated readiness to move forward on unsigned 1981 protocol, but noted changes may have to be made.

4. Eliminate nickel prohibition. U.S. noted recent Treasury offer as good basis for resolution, and invited Soviets to respond.

5. Antidumping, especially action on potash. U.S. agreed to discuss, but noted limited administrative flexibility.

6. Supplier Reliability. U.S. agreed to discuss the matter if a JCC were held.

7. MFN and Credits. U.S. agreed to put it on agenda, stressing that there would be no change in U.S. policy. Soviets noted firm U.S. position, but want it on JCC agenda anyway.

8. Renew maritime negotiations. U.S. agreed to discuss maritime matters, but in the traditional maritime framework and noting that U.S. maritime industry interests would have to be addressed.

(U) This report has been reviewed and cleared by all members of the U.S. delegation, which included representatives of the Departments of State, Treasury and Commerce, the U.S. Trade Representative and our Embassy in Moscow.

JAN 18 1985

COMMON FUND

Issue

Should the United States ratify the Common Fund?

It is time for the United States to make a definitive decision on the Common Fund and put the issue behind us. The issue is coming to the fore because of diplomatic pressure on the United States to ratify by G-77 countries. The pressure is occasioned by the fact that ratifications have reached the point where U.S. ratification (and expected ratifications following our lead) would be sufficient to bring the Common Fund into force. However, to ratify, the United States would have to jettison a precondition we have insisted on for the last four years and to overcome philosophical aversion and practical doubts about the Common Fund.

U. S. position

The U.S. position has been that we would consider taking steps to ratify the Common Fund Agreement when several eligible commodity agreements are prepared to associate with the Common Fund. This consistent U.S. position is based on the premise that the Common Fund makes no sense without commodity agreements able to associate with it. The United States has declined to pledge resources to the Second Window of the Fund, and our position is not affected by arguments that the Second Window should be allowed to operate even if the First Window never does. The United States has also rejected the notion that we should ratify because other countries have.

Provisions of the Common Fund

The ideas motivating the Common Fund are that price-stabilizing commodity agreements are desirable and that commodity organizations can borrow more cheaply as a group (from one another and commercially) than as individual entities.

The Common Fund's intent then is to facilitate the financing of price-stabilizing buffer stock agreements and to help mobilize funding of "other measures" to improve the market position of commodities. To this end, the Common Fund's First Window is designed to lend money to the buffer-stock operations of associated commodity agreements. The source of the funds would be pooled assets of associated agreements and funds borrowed commercially.

The Fund's Second Window would finance commodity projects aimed at improving structural conditions in commodity markets and at enhancing the competitiveness of commodities, primarily by financing research and development to promote consumption.

Entry-into-force requires ratification by 90 countries accounting for two-thirds of $470 million of direct contributions (to be used as collateral to secure commercial borrowing), and 50 percent of $280 million of voluntary contributions to the Second Window.

Current situation

As of mid-September, 83 countries had ratified the Common Fund accounting for 50 percent of direct contributions. The Second Window requirement for entry into force has already been met. The last deadline for entry into force was January 1, 1984; this deadline was not met but it has been extended de facto.

The United States has a 15.7 percent share of direct contributions. Ratification by the United States and Germany would complete the two-thirds threshold and most observers believe that sufficient ratifications to reach the required 90 would follow in the wake of U.S. ratification. (Among other major countries, only West Germany and the Soviet Union have not ratified; West Germany is committed to ratify.)

Meanwhile, contentious issues over voting and rules for Second Window financing are in abeyance until it is known whether the Fund will enter into force. The voting question revolves around LDCs' insistence that their bloc have effective voting control of the organization under all circumstances. This would require further decoupling of financial contributions from votes, a highly undesirable feature in a financial institution.

History

The idea of a common fund has been a major feature of international discussion since about 1974. At that time the UNCTAD Secretariat elaborated a common fund proposal, opened it for international discussion, and promoted it. Developed countries showed little or no interest in a common fund, questioning its need and usefulness. But developing countries kept up the pressure and negotiations began in 1977. These negotiations led to formal "Articles of Agreement for the Common Fund" in June 1980. The United States signed the articles in 1980. Since then, ratifications have steadily increased, as the UNCTAD Secretariat pushed for entry into force. At the same time, however, high-level interest in major industrial countries has faded, as evidenced by Summit communiques which at first urged ratification, but at London simply stated "some of us also wish to activate the common fund for commodities".

Commodity agreements

Currently there are only three agreements which have buffer stocks and which are thereby eligible to associate with the Common Fund, if it enters into force. These are international commodity agreements for cocoa, natural rubber, and tin. (The coffee agreement, the wheat agreement, and the new sugar agreement do not qualify since they have no internationally controlled stocks.) All three of the potentially eligible agreements would require significant modification to meet requirements for association with the Common Fund. Although the agreements have provisions to enable them to associate with the Fund, none have started the process.

Options

1) Ratify

US ratification would be well received by the Group of 77 and some of our OECD allies. It would eliminate the United States as an obstacle to entry into force, and thereby to LDC access to resources pledged to the Second Window by other countries. The cost is not large, $74 million, $25 million paid in. But it would require the United States to abandon its present position that there first be commodity agreements able to associate with the Fund. There are no clear economic benefits to the United States other than small potential savings for our membership in the rubber agreement if it associates (we are not members of either the cocoa or tin agreement). And the Fund might foster new commodity agreements which this Administration dislikes and would bring into operation another concessional aid institution (the Second Window). Moreover, in ratifying the Common Fund, the United States would accept a voting structure, bad in itself, and inimical to our interests in other financial institutions.

2) Reject ratification

Would subject us to considerable political heat, because the United States has abandoned a principal prop of the north-south dialogue. It is conceivable that the Fund would come into being without the United States, providing a propaganda windfall for the Soviet Union which could claim credit. However, would avoid U.S. cooperation in bringing into force an institution which goes against U.S. commodity policy and against U.S. policy on additional concessional finance. Would avoid encouraging the belief that given enough time and pressure the United States is prepared to accede to questionable economic ventures.

3) Don't change present position

It is sensible to insist that the Common Fund have something to finance before agreeing to it. It leaves the door open to eventual ratification. Other countries would continue to pressure us to ratify. The Common Fund is unpalatable in principle and of little or no use in practice and it is time to remove it from our agenda by announcing we will not ratify.